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7
8 **BEFORE THE**
CALIFORNIA BOARD OF ACCOUNTANCY
9 **DEPARTMENT OF CONSUMER AFFAIRS**
STATE OF CALIFORNIA

10 In the Matter of the Accusation Against:

Case No. AC-2005-11

11 SEVERO "ROY" CAMIL ESTRADA
2729 Glen Amador Court
12 San Jose, California 95148

**STIPULATED SURRENDER
OF LICENSE AND ORDER**

13 Certified Public Accountant Certificate
No. CPA 35696,
14

Respondent.

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16 IT IS HEREBY STIPULATED AND AGREED by and between the parties in this
17 proceeding that the following matters are true:

18 **PARTIES AND JURISDICTION**

19 1. Carol Sigmann, Complainant, is the Executive Officer of the California Board of
20 Accountancy (the "Board"). She brought this action solely in her official capacity and is
21 represented in this matter by Bill Lockyer, Attorney General of the State of California, and by
22 Jeanne C. Werner, Deputy Attorney General.

23 2. Severo "Roy" Camil Estrada, Respondent, is representing himself in this
24 proceeding and has chosen not to exercise his right to be represented by counsel.

25 3. On or about July 30, 1982, the California Board of Accountancy issued Certified
26 Public Accountant Certificate No. CPA 35696 to Respondent Severo "Roy" Camil Estrada. The
27 Certificate is subject to renewal every two years (on September 1 of odd-numbered years)
28 pursuant to Code Section 5070.5. The Certified Public Accountant Certificate was continuously

1 renewed in "active" status until its renewal in an "inactive" status effective September 1, 2001, in
2 which status it has remained, and is renewed through August 31, 2007.

3 4. Accusation No. AC-2005-11 was filed before the Board on May 12, 2006, and is
4 currently pending against Respondent. The Accusation and all other statutorily required
5 documents were properly served on Respondent on May 17, 2006. Respondent timely filed his
6 Notice of Defense contesting the Accusation. A copy of Accusation No. AC-2005-11 is attached
7 as exhibit A and incorporated herein by reference.

8 **WAIVERS & CONTINGENCY**

9 5. Respondent has carefully read, and understands the charges and allegations in
10 Accusation No. AC-2005-11. Respondent also has carefully read, and understands the effects of
11 this Stipulated Surrender of License and Order.

12 6. Respondent is fully aware of his legal rights in this matter, including the right to a
13 hearing on the charges and allegations in the Accusation; the right to be represented by counsel,
14 at his own expense; the right to confront and cross-examine the witnesses against him; the right
15 to present evidence and to testify on his own behalf; the right to the issuance of subpoenas to
16 compel the attendance of witnesses and the production of documents; the right to reconsideration
17 and court review of an adverse decision; and all other rights accorded by the California
18 Administrative Procedure Act and other applicable laws. Respondent voluntarily, knowingly,
19 and intelligently waives and gives up each and every right set forth above.

20 7. It is understood that in signing this stipulation rather than further contesting the
21 Accusation, Respondent is voluntarily consenting to the adoption of this Stipulated Surrender
22 and Order as the Board's Decision in Case No. 2005-11, enabling the Board to issue the
23 following order without further legal process. Respondent represents that no tender, offer,
24 promise, threat or inducement of any kind whatsoever have been made by the Board or any
25 member, officer, agent or representative thereof in consideration of this offer or otherwise to
26 induce him to so consent.

27 8. This stipulation shall be subject to approval by the Board. Respondent
28 understands and agrees that counsel for Complainant and the staff of the Board may

1 communicate directly with the Board regarding this stipulation and settlement, without notice to
2 or participation by Respondent. By signing the stipulation, Respondent understands and agrees
3 that he may not withdraw his agreement or seek to rescind the stipulation prior to the time the
4 Board considers and acts upon it.

5 9. If the Board does not adopt this stipulation as its Decision and Order, the
6 Stipulated Surrender shall be withdrawn. It shall be of no force or effect, except for this
7 paragraph. It shall have no evidentiary value, shall be inadmissible in any legal action between
8 the parties, and shall not be relied upon or introduced in any disciplinary, or other, action or
9 proceeding by either party hereto. In the event that the Stipulated Surrender is not adopted,
10 nothing recited herein shall be construed as a waiver of Respondent's right to a hearing on the
11 truth of the Accusation's charges, or a waiver of any other right, including those rights expressly
12 waived in the Stipulated Surrender. Communications pursuant to this paragraph, and
13 consideration of this matter, shall not disqualify the Board or other persons from future
14 participation in this or any other matter affecting Respondent. Respondent agrees that should the
15 Board reject the Stipulated Surrender and if this case proceeds to hearing, Respondent will assert
16 no claim that the Board was prejudiced by its review and discussion of the Stipulated Surrender
17 or of any records related hereto.

18 **ADMISSIONS AND FURTHER STIPULATIONS BETWEEN THE PARTIES**

19 10. Solely for the purpose of resolving the charges and allegations in the Accusation,
20 Respondent admits the truth of the charges and allegations in Accusation No. AC-2005-11,
21 agrees that cause exists for discipline and hereby surrenders his Certified Public Accountant
22 Certificate No. CPA 35696 for the Board's formal acceptance.

23 11. Respondent understands that by signing this stipulation he enables the Board to
24 issue an order accepting the surrender of his Certified Public Accountant Certificate without
25 further process.

26 12. The surrender of Respondent's Certified Public Accountant Certificate and the
27 acceptance of the surrendered license by the Board shall constitute the imposition of discipline
28 against Respondent. This stipulation constitutes a record of the discipline and shall become a

1 part of Respondent's license history with the Board.

2 13. Respondent shall lose all rights and privileges as a Certified Public Accountant in
3 California as of the effective date of the Board's Decision and Order.

4 14. Respondent shall cause to be delivered to the Board both his wall certificate and
5 pocket license certificate when requested to do so by the Board.

6 15. Respondent understands and agrees that if he ever applies for licensure or
7 petitions for reinstatement in the State of California, respondent will be required to pay cost
8 recovery in this case before his application or petition will be considered. The Board's
9 reasonable costs of investigation and prosecution in this case as of September 28, 2006, are
10 \$18,308.23.

11 16. The parties understand and agree that facsimile copies of this Stipulated Surrender
12 of License and Order, including facsimile signatures thereto, shall have the same force and effect
13 as the originals.

14 17. In consideration of the foregoing admissions and stipulations, the parties agree
15 that the Board may, without further notice or formal proceeding, issue and enter the following
16 Order:

17 **ORDER**

18 IT IS HEREBY ORDERED that the surrender of Certified Public Accountant Certificate
19 No. CPA 35696, issued to Respondent Severo "Roy" Camil Estrada, is accepted by the
20 California Board of Accountancy. Respondent shall lose all rights and privileges as a Certified
21 Public Accountant in California as of the effective date of the Board's Decision and Order.

22 **ACCEPTANCE**

23 I have carefully read the Stipulated Surrender of License and Order. I understand the
24 stipulation and the effect it will have on my Certified Public Accountant Certificate. I enter into
25 this Stipulated Surrender of License and Order voluntarily, knowingly, and intelligently, and

26 \\\

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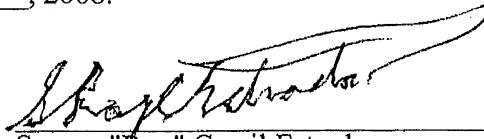
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1 agree to be bound by the Decision and Order of the California Board of Accountancy.

2 DATED: October 2, 2006.

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Severo "Roy" Camil Estrada
Respondent

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6

ENDORSEMENT

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The foregoing Stipulated Surrender of License and Order is hereby respectfully submitted
8 for consideration by the California Board of Accountancy of the Department of Consumer
9 Affairs.

10 DATED: October 5, 2006

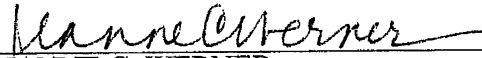
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BILL LOCKYER, Attorney General
of the State of California

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JEANNE C. WERNER
Deputy Attorney General

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Attorneys for Complainant

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DOJ Matter ID: SF2004401435
draft surrender sept 06.wpd

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**BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA**

In the Matter of the Accusation Against:

SEVERO "ROY" CAMIL ESTRADA
2729 Glen Amador Court
San Jose, California 95148

Certified Public Accountant Certificate
No. CPA 35696,

Respondent.

Case No. AC-2005-11

DECISION AND ORDER

The offer of surrender of Certified Public Accountant Certificate
No. CPA 35696 is hereby accepted by the California Board of Accountancy, Department of
Consumer Affairs, and the Stipulated Surrender of License is adopted its Decision in this matter.

This Decision shall become effective on January 7, 2007.

It is so ORDERED December 8, 2006, 2006.



Ron Blanc, President
FOR THE CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS

Exhibit A

Accusation No. AC-2005-11

1 BILL LOCKYER
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Deputy Attorney General
3 1515 Clay Street, 20th Floor
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8 **STATE OF CALIFORNIA**

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10 In the Matter of the Accusation Against:

Case No. AC-2005-11

11 SEVERO "ROY" CAMIL ESTRADA
2729 Glen Amador Court
12 San Jose, California 95148

ACCUSATION

13 Certified Public Accountant Certificate No. CPA
35696

14
15 Respondent.

16 Complainant alleges:

17 **PARTIES AND JURISDICTION**

18 1. Complainant Carol Sigmann brings this Accusation solely in her official
19 capacity as the Executive Officer of the California Board of Accountancy, Department of
20 Consumer Affairs.

21 2. On or about July 30, 1982, the California Board of Accountancy issued Certified
22 Public Accountant Certificate Number CPA 35696 to Severo "Roy" Camil Estrada,
23 Respondent. The Certificate is subject to renewal every two years (on September 1 of odd-
24 numbered years) pursuant to Code Section 5070.5. The Certified Public Accountant Certificate
25 was continuously renewed in "active" status until its renewal in an "inactive" status effective
26 September 1, 2001, in which status it has remained, and is renewed through August 31, 2007.

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STATUTES AND PROFESSIONAL STANDARDS

3. Disciplinary Authority/Unprofessional Conduct. This Accusation is brought before the Board under the authority of Section 5100 of the Business and Professions Code.^{1/} Code Section 5100 provides, in relevant part, that, after notice and hearing the Board may revoke, suspend or refuse to renew any permit or certificate granted, or may censure the holder of that permit or certificate for unprofessional conduct including, but not limited to, one or any combination of the following causes:

5100(c) Gross negligence in the practice of public accountancy.

5100(g) Willful violation of the Accountancy Act or any rule or regulation^{2/} promulgated by the board under the authority granted under this chapter.

5100(j) Knowing preparation, publication or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information.

4. Audit Report. Code Section 5062 requires a licensee to issue a report which conforms to professional standards upon completion of an audit of financial statements.

5. Licensed Practice. As pertinent herein, Code Section 5050 requires that a person be licensed by the Board in order to practice public accountancy in the State of California. Code Section 5055 provides that only a licensed individual or firm may use the "CPA" designation. Code Section 5051 states in pertinent part that a person shall be deemed to be engaged in the practice of public accountancy if he or she does any of the activities specified therein, including:

(a) Holds himself or herself out to the public in any manner as one skilled in the knowledge, science, and practice of accounting, and as qualified and ready to render professional service therein as a public accountant for compensation.

(b) Maintains an office for the transaction of business as a public accountant.

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1. All statutory references are to the Business and Professions Code unless otherwise indicated.

2. Board rules or regulations cited herein are codified in Title 16 of the California Code of Regulations and will be referenced simply as a Board Rule, e.g., Cal. Code Regs., tit. 16, § 5 will be referenced herein as Board Rule 5.

(c) Offers to prospective clients to perform for compensation, or who does perform on behalf of clients for compensation, professional services that involve or require an audit, examination, verification, investigation, certification, presentation, or review of financial transactions and accounting records.

(f) Keeps books, makes trial balances, or prepares statements, makes audits, or prepares reports, all as a part of bookkeeping operations for clients.

6. Required Observance of Rules. Board Rule 5 requires a licensee to observe Board rules if the licensee is engaged in the types of activities performed by certified public accountants or who renders other professional services which include, but are not limited to, bookkeeping, financial planning, investment planning, tax services and management services.

7. Professional Standards (Audits of Financial Statements and Auditor's Reports). Board Rule 58 provides that licensees engaged in the practice of public accountancy must comply with all applicable professional standards, including but not limited to Generally Accepted Accounting Principles ("GAAP" - see below), Governmental Auditors Standards ("GAS"), and Generally Accepted Auditing Standards ("GAAS" - see below).^{3/} Standards of practice pertinent to this accusation and the engagements in issue^{4/} include, without limitation:

A. Generally Accepted Auditing Standards ("GAAS") issued by the American Institute of Certified Public Accountants (AICPA). The ten Generally Accepted Auditing Standards^{5/} are discussed at some length in the Statements on Auditing Standards ("SAS") and are codified, by "AU" number, in the AICPA's *Codification of Statements on Auditing Standards*. GAAS include four Standards of Reporting.

3. "Generally Accepted Accounting Principles" (GAAP) are the basic postulates and broad principles of accounting pertaining to business enterprises. These principles establish guidelines for measuring, recording, and classifying the transactions of a business entity. "Generally Accepted Auditing Standards" (GAAS) are the standards prescribed for the conduct of auditors in the performance of an examination of management's financial statements. See *SEC v. Arthur Young & Co.*, 590 F.2d 785, 788 nn. 2 & 4 (9th Cir. 1979).

4. All references herein to standards and other authoritative literature are to the versions in effect at the time the audit engagements were being performed.

5. There are ten basic or fundamental standards, and the Statements on Auditing Standards are, for the most part, devoted to elaborating on those standards. The basic standards are codified at AU § 150. Among these ten standards are the three General standards, the three standards of Fieldwork, and the four Reporting standards, all of which are further described in the other SAS's.

(1) Among the SAS relevant herein are:

AU §150 (Ten Standards and Informative Disclosures; also AU § 431);

AU §210 (Training and Proficiency of the Independent Auditor);

AU §230 (Due Care; AU §230.02 imposes a responsibility on the auditor to observe the standards of fieldwork and reporting);

AU §311 (Planning and Supervision);

AU §316.37 (Documentation of the Auditor's Risk Assessment);

AU §319 (Internal Control) and Appendix A (Control Environment Factors);

AU §326 (Evidential Matter);

AU §339 (Working Papers); and

AU §431 (Presentation of Financial Statements; Qualified or Adverse Opinion)

AU §508 (Auditor's Report).

(2) GAAS - Specifics re: **"Reporting" Standards.**

(a) The **first "Standard of Reporting"** (AU § 150.02) provides that "The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles." This is further defined in AU § 508.08, which provides that the fourth basic element of the auditor's standard report is the inclusion of a statement that "the audit was conducted in accordance with generally accepted auditing standards and an identification of the United States of America as the country of origin of those standards."

(b) The **third "Standard of Reporting"** (AU § 150.02) provides that "Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report."

(c) The **fourth "Standard of Reporting"** (AU § 150.02) provides that the "report shall contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed...the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking."

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1 (d) AU Section 508 provides further guidance regarding the relationship of
2 the fourth reporting standard (immediately above) to the language of the auditor's report. The
3 auditor can determine that he is able to issue an audit report containing an unqualified opinion
4 only if he has conducted his audit in accordance with GAAS. AU Section 530 states, in part,
5 that the date of the auditor's report should be the date the field work and corresponding review
6 of events subsequent to the balance sheet date is completed.

7 B. Generally Accepted Governmental Auditing Standards ("GAS" or
8 "GAGAS", set forth in *Government Auditing Standards - Standards for Audit of*
9 *Governmental Organizations, Programs, Activities and Functions*, and issued by the
10 Comptroller General of the United States, United States General Accounting Office, 1994 rev.
11 as amended (the "Yellow Book"). For a "Yellow Book" audit, these standards, **in addition** to
12 requiring observance of the GAAS requirements set forth above, provide additional
13 requirements, *e.g.*, supplemental working paper documentation requirements, additional
14 reporting requirements (reports on internal control and compliance with laws and regulations),
15 and quality reviews, as set forth hereinafter. Among specific GAS or GAGAS standards
16 pertinent herein are, without limitation:

17 (1) GAS/GAGAS Supplemental Working Paper Requirements: Section 4.34 of
18 Generally Accepted Government Auditing Standards ("GAGAS" or the "Yellow Book")
19 requires that a record of the auditors' work be retained in the form of working papers. Section
20 4.35 provides that "Working papers should contain sufficient information to enable an
21 experienced auditor having no previous connection to the audit to ascertain from them the
22 evidence that supports the auditors' significant conclusions and judgments."

23 (2) Quality Control/Review: Section 3.31 provides that "Each audit organization
24 conducting audits in accordance with these standards should have an appropriate internal
25 quality control system in place and undergo an external quality control review." Section 3.33
26 provides that "Organizations conducting audits in accordance with these standards should have
27 an external quality review at least once every 3 years by an organization not affiliated with the
28 organization being reviewed. [Footnote omitted.] The external quality control review should

1 determine whether the organization's internal quality control system is in place and operating
2 effectively to provide reasonable assurance that established policies and procedures and
3 applicable auditing standards are being followed."

4 (3) GAS/GAGAS Continuing Education Requirements: Section 3.6 requires, *inter*
5 *alia*, that each auditor responsible for planning, directing, conducting, or reporting on audits
6 under GAGAS complete, every 2 years, at least 80 hours of continuing education and training,
7 of which at least 24 hours should be in subjects directly related to the government environment
8 and to government auditing. Section 3.7 makes the audit organization responsible for
9 establishing and implementing a program to ensure that auditors meet the continuing education
10 and training requirements set forth in Section 3.6, and requires that the audit organization
11 maintain documentation of the education and training completed.

12 (4) GAS/GAGAS Additional Reports Required: Section 5.3 incorporates the
13 reporting requirements of GAAS and prescribes additional standards, including the requirement
14 to report on compliance with laws and regulations (see sections 5.5 through 5.16) and to report
15 on internal controls (see sections 5.17 through 5.25).

16 (5) Sixth Supplemental Reporting Standard: GAS requires that audit reports are to
17 be submitted, *inter alia*, to officials who have legal oversight authority or who may be
18 responsible for taking action and to others authorized to receive such reports (Section 5.32).

19 C. Generally Accepted Accounting Principles ("GAAP"), derived from various
20 authoritative sources. AU § 411 provides guidance to the auditor concerning the "Meaning of
21 'Present Fairly in Conformity with GAAP.'" This guidance relates to the auditor's duties under
22 both GAAS and GAAP. AU § 411.18 sets forth the "GAAP Hierarchy Summary." Generally
23 Accepted Accounting Principles relevant herein include, without limitation:

24 (1) Statements and Interpretations (SFAS or FAS) issued by the Financial
25 Accounting Standards Board (FASB).⁶ FAS and APB Opinions (see paragraph (2)
26 immediately following) are codified by topic in the AICPA's publication *Current Text*. These,

27 6. The FASB is the private sector organization which has been primarily responsible for
28 promulgating GAAP since 1973. Before the FASB, the Accounting Principles Board (APB) issued opinions,
from 1959 through 1973.)

1 pronouncements are the most authoritative source for GAAP. The statements pertinent herein
2 include, without limitation, SFAS No. 5 (Allowance for Doubtful Accounts); SFAS No. 13
3 (Operating Leases); SFAS No. 95 (Cash Paid for Interest and Taxes); and SFAS No. 117
4 (Classification of Net Assets).

5 (2) Statements issued by the Accounting Principles Board of the AICPA, including
6 *APB No. 22* (Summary of Significant Accounting Policies).

7 (3) Statements of Financial Position 94-6 (Section 10,640 from AICPA Technical
8 Practice Aids) re: Disclosure of Certain Significant Risks and Uncertainties.

9 D. Laws and regulations, including those of the California Department of Social
10 Services (CDSS), which govern audit requirements for foster care providers. During the
11 relevant time period, relevant requirements were provided, inter alia, by the California Welfare
12 and Institutions code and by the DSS Manual which provided Administrative Standards for
13 Eligibility and Assistance Programs, specifically Regulation 11-405.2.21 *Audit Report*
14 *Requirements*.

15 8. Continuing Education Requirements for Licensure and Active Practice.

16 Board Rule 80 provides that the holder of an inactive license shall not engage in the
17 practice of public accountancy as defined by Code Section 5051. Board Rule 87 sets forth
18 continuing education requirements for active license renewal. Board Rule 94 provides that the
19 failure, by a licensee engaged in active practice, to comply with the Board's continuing
20 education rules and requirements constitutes cause for discipline under Code Section 5100.

21 9. Pursuant to Code section 118(b), the suspension, expiration, or forfeiture by
22 operation of law of a license issued by the Board shall not, during any period in which it may
23 be renewed, restored, reissued, or reinstated, deprive the Board of its authority to institute or
24 continue a disciplinary proceeding against the licensee upon any ground provided by law or to
25 enter an order suspending or revoking the license or otherwise taking disciplinary action against
26 the licensee on any such ground. Further, Code section 5109 provides, *inter alia*, that the
27 expiration of a license shall not deprive the Board of jurisdiction to proceed with any
28 investigation or action or disciplinary proceeding against the licensee. Code section 5070.6

1 provides that an expired permit may be renewed at any time within five years after its
2 expiration upon compliance with certain requirements.

3 10. Cost Recovery. Code Section 5107 authorizes the Board's recovery of certain
4 costs which result from the investigation and prosecution of violations of the Accountancy Act.
5 Section 5107(a) of the Code provides in pertinent part that the executive officer of the Board
6 may request the administrative law judge, as part of the proposed decision in a disciplinary
7 proceeding, to direct any holder of a permit or certificate found guilty of unprofessional
8 conduct in violation of Section 5100 to pay to the Board all reasonable costs of investigation
9 and prosecution of the case, including, but not limited to, attorneys' fees incurred prior to the
10 commencement of the hearing. A certified copy of the actual costs, or a good faith estimate of
11 costs signed by the Executive Officer, constitute prima facie evidence of reasonable costs of
12 investigation and prosecution of the case.

13 11. Code section 5000.1 provides as follows: "Protection of the public shall be the
14 highest priority for the California Board of Accountancy in exercising its licensing, regulatory,
15 and disciplinary functions. Whenever the protection of the public is inconsistent with other
16 interests sought to be promoted, the protection of the public shall be paramount."

17 **FOR CAUSES FOR DISCIPLINE**

18 **Country House, Inc. - Financial Statement Audit for FYE September 30, 2002**

19 **First Cause for Discipline - Gross Negligence**
20 **[Bus. & Prof. Code Section 5100(c)]**

21 12. Respondent was engaged to perform, and did perform, an audit of the financial
22 statements of Country House, Inc. Country House, Inc., a not-for-profit corporation, receives
23 public monies for its foster care program and is required to file audit reports on its financial
24 statements with the California Department of Social Services ("DSS"). The circumstances
25 follow.

26 ***First Set of Reports on Country House - 2002***

27 13. On a date known to Respondent but not to Complainant, but likely in or about
28 *September 2002*, Respondent issued an *undated* audit report on Country House's financial

1 statements for the seven-month period ended April 30, 2002. The cover sheet indicated it was
2 an *Independent Financial Audit Report As Of September 30, 2002*. The report asserted that
3 Respondent conducted his audit in accordance with GAAS and GAS, and that the financial
4 statements were fairly presented in accordance with GAAP.

5 14. Respondent also issued, in or about the time period referenced above, and
6 caused to be filed, or acquiesced in the filing, with DSS, for the same period ending April 30,
7 2002, his *undated* required Report on Internal Control as required by GAS.

8 15. The reports referenced in paragraphs 13 and 14 above were stamped received at
9 DSS' Foster Care Audits & Rates Branch, Financial Audits and Investigations Bureau on
10 September 30, 2002.

11 ***Re-characterization of First Report on Country House - 2002***

12 16. In response to an information request in November 2002 from the Board's
13 investigator, the Respondent forwarded the report referenced in paragraph 13, marked
14 "Advance Copy," noting that it was issued in order that the client could meet a filing obligation
15 with the DSS.

16 ***Second Set of Reports on Country House - 2002***

17 17. On a date known to Respondent but not to Complainant, Respondent issued a
18 second audit report for the period ended April 30, 2002. (This report does not bear the
19 "Advance Copy" designation.) This report also asserted that Respondent conducted his audit in
20 accordance with GAAS and GAS, and that the financial statements were fairly presented in
21 accordance with GAAP. Respondent also (re-)issued, on a date known to Respondent but not
22 to Complainant, his undated Report on Internal Control as required by GAS.⁷ A copy of these
23 reports was provided to the Board in response to its inquiry regarding features of the "Advance
24 Copy" reports described in paragraphs 13 and 14 above.

25 18. Respondent's license is subject to disciplinary action under Code section
26 5100(c) for unprofessional conduct in that Respondent performed the audit of the financial

27 7. A copy of these reports was provided to the Board in response to its inquiry regarding features
28 of the "Advance Copy" reports described in paragraphs 13 and 14 above. These reports were not filed with
DSS.

1 statements of Country Home, Inc., an entity subject to Governmental Auditing Standards,
2 which incorporate Generally Accepted Auditing Standards (GAAS), in a grossly negligent
3 manner, as alleged herein.

4 *Violations of GAAS & Yellow Book - Auditing Standards*

5 First Standard of Fieldwork - Planning

6 19. The first standard of fieldwork requires adequate planning and proper
7 supervision (see AU §150). The audit contained extreme departures from GAAS requirements
8 for planning an audit, including but not limited to Respondent's failure to:

9 A Obtain a level of knowledge of the client and its industry, or to consider the
10 nature, extent, and timing of work to be performed, including making a preliminary judgment
11 about materiality levels for audit purposes; use analytical procedures in the planning and
12 overall review stages of the audit; and prepare a written audit program reflecting this planning.
13 [See esp. AU §§311.03-.10 and 329.] Among other failures, Respondent failed to prepare a
14 written program, to properly consider the work to be done, and to use analytical procedures.
15 The audit documentation, or work papers, contain no documentation that Respondent made a
16 preliminary materiality judgment, or that he considered the nature, extent, and timing of the
17 work to be performed, or that he employed analytical procedures in any phase of the audit.

18 B. Establish an understanding with the client regarding the services to be
19 performed in the engagement. [AU §310.05.] There is no engagement letter or other evidence
20 that Respondent established an understanding with the client regarding the services to be
21 performed.

22 C. Obtain an understanding of the internal control structure and the assessed level
23 of control risk. [See esp. AU §§150, 319.25; 319.61 and 319.83.] (See also paragraphs 21
24 through 23 below.)

25 20. Incorporating by reference the matters alleged in paragraphs 12 through 19,
26 Respondent's performance of the audit was characterized by extreme departures from GAAS
27 and Yellow Book requirements, constituting gross negligence within the meaning of Code
28 Section 5100(c).

1 Second Standard of Fieldwork - Internal Controls

2 21. The second standard of fieldwork requires that the auditor obtain a sufficient
3 understanding of internal control to plan the audit and to determine the nature, timing, and
4 extent of tests to be performed. (See AU §150.) Respondent's understanding of the elements
5 of internal control, his evaluation of the internal control structure, and his assessment of the
6 level of control risk, did not conform to professional standards, as described below.

7 22. Respondent failed to obtain an understanding of internal control sufficient to
8 plan the audit. Specifically, he failed to obtain a sufficient understanding of the elements of
9 Country House's internal control structure (the control environment, risk assessment, control
10 activities, information and communication, and monitoring) to properly plan the audits; he
11 performed no procedures to understand the design of relevant controls, nor to evaluate whether
12 controls had been placed in operation. (See AU §319.)

13 23. There is no documentation of respondent's understanding and consideration of
14 the elements of internal control. These failures include his failure to document that a sufficient
15 understanding of the elements of Country House's internal control structure was obtained to
16 properly plan the audit; his failure to document that he met his responsibility to assess the level
17 of control risk in determining the nature, timing, and extent of substantive tests for financial
18 statement assertions. There is no documentation of any conclusions, nor of any basis for
19 conclusions, regarding such a risk assessment. (See AU §§150, 319 and 339.05.)

20 24. Incorporating by reference the matters alleged in paragraphs 12 through 19 and
21 21 through 23, Respondent's performance of the audit in the area of internal control was
22 characterized by extreme departures from GAAS and Yellow Book requirements, constituting
23 gross negligence within the meaning of Code Section 5100(c).

24 Third Standard of Fieldwork - Evidential Matter

25 25. The third standard of fieldwork requires that the auditor obtain sufficient
26 competent evidential matter, through inspection, observation, inquiries, and
27 confirmations, to afford a reasonable basis for an opinion regarding the financial
28 statements under audit. The auditor is required to evaluate the combined evidence provided

1 by the confirmations and alternative procedures to determine whether sufficient evidence has
2 been obtained about all applicable financial statement assertions. The working papers must
3 document the audit evidence obtained, the auditing procedures applied, and the testing
4 performed in order to meet the requirement that the auditor's opinion is reasonably based upon
5 sufficient competent evidential matter. [See AU §§150; 326; 330.33; 333; 337; 339.05; 337.]
6 Respondent failed, in his performance of the Country House audit, to obtain and/or document
7 sufficient competent evidential matter to support his opinion on the financial statements, as
8 described below.

9 26. Respondent failed to obtain, and to document in his working papers, the audit
10 evidence obtained, the auditing procedures applied, and the testing performed to comply with
11 the requirement that sufficient competent evidential matter be gathered and analyzed to afford a
12 reasonable basis for an opinion. The bank account, with a balance of \$709.44 on the books,
13 was not reconciled to the bank balance of \$896.23. There are transfers noted on the bank
14 statement with a different account number, but no other bank statements are presented and only
15 one cash account is on the general ledger. There is no evidential matter presented, other than
16 the general ledger, to support assertions made in the financial statements. [AU §§150; 336.02-
17 .03.]

18 27. Management and Legal Representation Letters. Generally Accepted Auditing
19 Standards require the auditor to obtain, as of a date on or near the auditor's report date, letters
20 from the client making certain representations about the financial statements as well as a "legal
21 representation letter" addressing the existence or non-existence of legal matters which might
22 affect financial statements or disclosures. Respondent failed to obtain written representations
23 from management that confirm representations explicitly or implicitly given to the licensee
24 during the audit [AU §§333.01; 333.03; 333.13] and failed to send a letter of audit inquiry to
25 the client's lawyer and to obtain a response. [AU §337.06 and -.08.]

26 28. Subsequent Period. There were no procedures performed related to the
27 subsequent period. [AU §560.10-.11.]

28 29. Incorporating by reference the matters alleged in paragraphs 12 through 19, 23,

1 and 25 through 28, above, Respondent's performance of the Country House audit contained
2 extreme departures from GAAS and Yellow Book requirements regarding evidential matter,
3 constituting gross negligence within the meaning of Code Section 5100(c).

4 **First and Third General Standards - Technical Proficiency and**
5 **Due Professional Care - and the Third and Fourth Standards of Reporting**

6 30. The first general standard requires that an audit be performed by technically
7 proficient auditors with adequate training. The third general standard requires that the auditor
8 exercise due professional care in the performance of the audit and in the preparation of the
9 report. The third standard of reporting requires that "informative disclosures in the financial
10 statements are to be reported as reasonably adequate unless otherwise stated in the report." The
11 fourth standard of reporting reiterates requirements regarding the auditor's opinion and report.
(See AU §§150; 431.02 and 431.03; 530.31.)

12 31. Incorporating by reference the allegations in paragraphs 12 through 19, 21
13 through 23, 25 through 28, and 30, above, Respondent's failures, including his lack of technical
14 proficiency and failure to exercise due professional care, are demonstrated by the extreme
15 departures from professional standards. Possessing and exercising adequate technical training
16 and proficiency requires that the auditor study, understand, and apply new pronouncements on
17 accounting principles and auditing procedures as they are developed by authoritative bodies
18 within the accounting profession. Due care imposes a responsibility to observe the standards of
19 field work and reporting, and requires the critical review of the work performed by, and the
20 judgment exercised by, the auditor.

21 32. Incorporating by reference the matters alleged in paragraphs 30 and 31 above,
22 cause for discipline of Respondent's license exists in that his performance of the audit contains
23 extreme departures from the requirements imposed by applicable professional standards
24 regarding technical proficiency and the exercise of due professional care, and was therefore
25 grossly negligent within the meaning of Code Section 5100(c).

26 Failures re: the Auditor's Report and Financial Statement Presentation

27 33. The audit working papers failed to include documentation showing that the audit
28 evidence obtained, the procedures applied, and the testing performed provided sufficient

1 competent evidential matter to afford a reasonable basis for an opinion on the financial
2 statements (indicating observance of the third standard of field work). In performing
3 procedures and gathering evidential matter, the auditor is to continually maintain an attitude of
4 professional skepticism. When an auditor's report expresses an opinion on the financial
5 statements, the opinion expressed is to be based upon an audit performed in accordance with
6 GAAS. The auditor failed to meet the fourth standard of reporting by expressing an opinion on
7 the financial statements, taken as a whole, based on an audit containing extreme departures
8 from the standards as noted above.

9 34. Date of Report. The auditor's report is not dated.

10 35. Omission of Required Disclosures. The auditor's report provides an unqualified
11 opinion on the financial statements but excludes all disclosures required by GAAP. As a result,
12 the licensee should have issued a qualified or adverse opinion. The omitted disclosures
13 include:

14 A. Nature of the company's operations and its use of estimates (SOP 94-6).

15 B. Summary of Significant accounting policies (APB No. 22).

16 C. Allowance for doubtful accounts (SFAS No. 5).

17 D. Operating leases (SFAS No. 13).

18 E. Cash paid for interest and taxes (SFAS No. 95).

19 36. Financial Statements. Respondent failed to obtain and to evaluate evidence in
20 support of the financial statement assertions, and failed to document that evidence. Respondent
21 failed to exercise professional skepticism and to apply the requisite skill and judgment to his
22 performance of the audit engagement. Respondent failed to comply with the third general
23 standard (AU §150.02), which requires the exercise of due professional care in the performance
24 of the audit and in the preparation of the report. (See AU §§150; 210; 230; 316; 326; 339 and
25 508.) Specifically, departures from requirements for the financial statements included:

26 A. The financial statements presented were not prepared in accordance with
27 professional standards (regarding the classification of net assets). (SFAS No. 117.)

28 B. The nature of the company's operations and its use of estimates in the

1 preparation of the financial statements were not disclosed in a "Notes to the Financial
2 Statements" section.

3 C. There was no disclosure of the principal services performed by the entity or the
4 revenue sources for the entity's services.

5 D. There was no explanation that the preparation of financial statements in
6 conformity with GAAP requires the use of the management's estimates (SOP 94-6).

7 E. There was no disclosure of significant accounting policies in the "Notes to
8 Financial Statements" section (APB No. 22).

9 F. An allowance for doubtful accounts was not disclosed in either the financial
10 statements or in a "Notes to the Financial Statements" section (SFAS No.5, APB Opinion No.
11 12).

12 G. Operating lease disclosures were not included in a "Notes to the Financial
13 Statements" section (SFAS No. 13).

14 H. The statement of cash flows was not prepared in accordance with SFAS No. 95.

15 37. Incorporating by reference the matters alleged in paragraphs 12 through 19 and
16 33 through 36, above, cause for discipline of Respondent's license exists in that his
17 performance of the audit contains extreme departures from the requirements imposed by
18 applicable professional standards regarding financial statement presentation and the auditor's
19 report and was therefore grossly negligent within the meaning of Code Section 5100(c).

20 38. Incorporating by reference the matters asserted in paragraph 37 above,
21 Respondent is subject to disciplinary action pursuant to Code Section 5100(c) in that he
22 provided an unqualified opinion on the financial statements of Country House, Inc., for the
23 seven months ended April 30, 2002, notwithstanding the fact that all disclosures required by
24 GAAP were excluded from the financial statements. As a result, the licensee should have
25 issued a qualified or adverse opinion.

26 Failures re: Yellow Book Requirements

27 39. Respondent failed to comply with requirements of Governmental Auditing
28 Standards ("Yellow Book" requirements) in issuing his report on internal controls and

1 compliance with laws and regulations [see especially Yellow Book, Section 5.15; AU §
2 508.098] as follows:

3 A. Respondent failed to refer to the separate report on internal controls that he had
4 included with the financial statements on the report on the financial statements.

5 B. Respondent failed to include in his report that the United States is the country of
6 origin of the auditing standards.

7 C. Respondent failed to date his report.

8 D. Respondent failed to modify his audit report for departures relating to
9 disclosures in the company's financial statements as previously noted.

10 E. There is no evidential matter which supports Respondent's assertion that he
11 tested compliance with laws and regulations and internal controls.

12 40. Incorporating by reference the matters asserted in paragraphs 12 through 19 and
13 39 above, Respondent's certification, in Respondent's audit report for Country House, Inc.'s
14 financial statements, that he had conducted his audit of Country House, Inc.'s financial
15 statements according to GAAS and Yellow Book requirements and that the financial statements
16 were fairly presented according to GAAP were contrary to fact and were not supported by
17 Respondent's audit procedures. Respondent caused the issuance of the report in the absence of
18 compliance with professional standards, constituting an extreme departure from those
19 standards.

20 **Second Cause for Discipline - Repeated Negligent Acts**
21 **[Bus. & Prof. Code Section §5100(c)]**

22 41. Incorporating by reference the matters alleged in paragraphs 12 through 19, 21
23 through 23, 25 through 28, 30, 33 through 36, and 39 above, cause for discipline of
24 Respondent's license is established under Board Rule 58 in conjunction with Code Section
25 5100(c), in that Respondent's conduct constitutes repeated negligent acts.

26 **Third Cause for Discipline - Observance of Professional Standards**
27 **[Bus. & Prof. Code Section §5100(g)/Rule 58]**

28 42. Incorporating by reference the matters alleged in paragraphs 12 through 19, 21
through 23, 25 through 28, 30, 33 through 36, and 39 above, cause for discipline of

Respondent's license is established under Board Rule 58 in conjunction with Code Section 5100(g), in that Respondent's conduct constitutes lack of conformance to professional standards.

Fourth Cause for Discipline - Auditor's Report Violations
[Bus. & Prof. Code Sections 5062/ 5100(g)]

43. Complainant realleges paragraphs 12 through 19, and 33 through 36 above, and incorporates them herein by reference as if fully set forth at this point.

44. The certifications, in Respondent's audit reports for Country House, Inc.'s financial statements, that he had conducted its audits of Country House, Inc.'s financial statements according to GAAS and that the financial statements were fairly presented according to GAAP were contrary to fact and were not supported by Respondent's audit procedures. Respondent caused the issuance of the report in the absence of compliance with professional standards.

45. Incorporating by reference the matters alleged in paragraphs 43 and 44, cause for discipline of Respondent's license is established under Code Section 5062, in conjunction with Code Section 5100(g), for his failures in issuing the April 30, 2002 Country House, Inc. audit report.

46. Complainant realleges paragraphs 12 through 19 and 39 above, and incorporates them herein by reference as if fully set forth at this point.

47. Incorporating by reference the matters alleged in paragraph 46 above, cause for discipline of Respondent's license is established under Code Section 5062, in conjunction with Code Section 5100(g), in that his Yellow Book reports do not comply with professional standards.

Further Causes for Discipline - Unlicensed Practice
[Bus. & Prof. Code §§ 5050/5051/5055 & 5100(g), and 5100(c)]

48. On dates known to Respondent but not to Complainant, Respondent, by his own admission, has been engaged in preparing and filing tax returns, signed by himself as the CPA tax preparer, during the time period his license has been renewed in an "inactive" status.

49. Incorporating by reference the matters alleged in paragraph 2, 12 through 19,

1 and 48 above, specifically that Respondent's license has been in an "inactive" status since
2 September 1, 2001, Respondent is subject to disciplinary action under Code Sections 5050,
3 5051 and 5055 in conjunction with Code Section 5100(g) as well as Board Rule 80 in that
4 Respondent's license was not valid for practice:

5 A. At the time he performed the audit engagement of Country House, Inc.'s
6 financial statements.

7 B. At the time Respondent issued any of his audit reports of Country House, Inc.'s
8 financial statements and his Yellow Book reports, and caused or acquiesced in the reports being
9 filed with DSS

10 C. During the time he was performing tax services for his clients, including signing
11 tax returns as a CPA.

12 D. At other times known to Respondent but not to Complainant.

13 50. Incorporating the matters alleged in paragraph 49 above, multiple causes are
14 established for the discipline of Respondent's license because Respondent engaged in the
15 practice of public accountancy and represented himself as a licensed CPA without being duly
16 licensed, that is, while his license was inactive.

17 51. Incorporating by reference the matters asserted in paragraph 49 above,
18 Respondent is subject to disciplinary action pursuant to Code Section 5100(c) in that his filing
19 of an audit report as a CPA during a time when his license was inactive is an extreme departure
20 from professional standards and constitutes cause for discipline of his license.

21 52. Incorporating by reference the matters asserted in paragraph 49 above,
22 Respondent is subject to disciplinary action pursuant to Code Section 5100(h) and Board Rule
23 94 in that his practice of public accountancy without fulfilling the requisite continuing
24 education requirements for active practice violates Board Rules 80 and 87(a) and is cause for
25 discipline of his license.

26 OTHER MATTERS

27 Cost Recovery

28 53. Pursuant to Code Section 5107, it is requested that the administrative law judge,

1 as part of the proposed decision in this proceeding, direct Respondent to pay to the Board all
2 reasonable costs of investigation and prosecution in this case, including, but not limited to,
3 attorneys' fees.

4 **Discipline Considerations**

5 54. Code Section 5000.1 is relevant to the penalty determination in this matter.

6 **PRAYER**

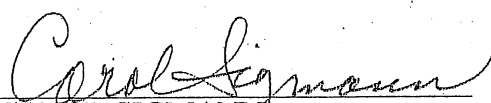
7 WHEREFORE, Complainant requests that a hearing be held on the matters herein
8 alleged, and that following the hearing, the California Board of Accountancy issue a decision:

9 55. Revoking, suspending, or otherwise imposing discipline upon Certified Public
10 Accountant Certificate Number CPA 35696, issued to Severo "Roy" Camil Estrada.

11 56. Ordering Severo "Roy" Camil Estrada to pay the California Board of
12 Accountancy the reasonable costs of the investigation and enforcement of this case, pursuant to
13 Business and Professions Code section 5107;

14 57. Taking such other and further action as deemed necessary and proper.

15
16 DATED: May 12, 2006

17 
18 CAROL SIGMANN
19 Executive Officer
20 California Board of Accountancy
21 Department of Consumer Affairs
22 State of California
23 Complainant
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